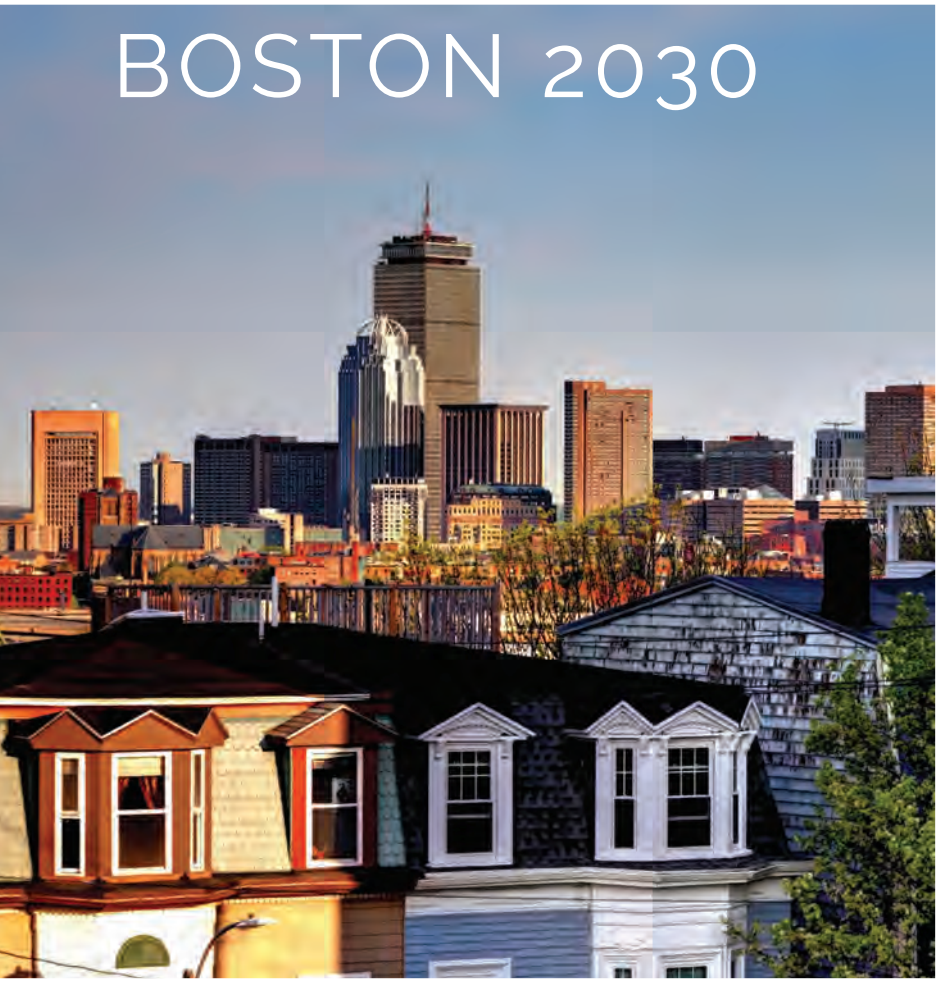
MAYOR MARTIN J. WALSH

HOUSING A CHANGING CITY

BOSTON 2030



CHAPTER 3

2014

BOSTON'S MIDDLE CLASS

With its long history of offering opportunity to its citizens at all income levels, the city of Boston is proof that an economically inclusive city not only provides employers with the diverse workforce they need to build and maintain a strong economy, but also that providing opportunity across income levels leads to strong, healthy neighborhoods. Maintaining a strong middle class is critical to ensuring that Boston continues to be a thriving, diverse city where people want to live and employers want to locate.

Today, Boston is facing an unprecedented and growing set of challenges as market forces erode housing options for the middle class. Retaining and growing Boston's middle class despite these challenges is critical to this housing plan, and is an important element in building the strong, inclusive city this plan envisions.

Boston's Middle Class

Boston's middle class is broadly defined as households with annual incomes between $50,000 and $125,000. The starting point for this range was set at $50,000, which reflects the fact that Boston's actual median household income in 2012 was $53,136. The $50,000 income level is also

where households start becoming ineligible for government-assisted rental housing, and where market-based housing solutions start becoming critical.

Boston still has a sizable middle class, representing 34 percent of Boston's population. However, compared to the region, Boston's middle class is smaller, younger, and has a homeownership rate substantially below the regional average (Table 12).

Middle Class Access to the Housing Market

As shown in Table 13, a substantial share of Boston's middle class is facing a housing market that is increasingly out of reach. A household earning approximately $80,000 cannot even afford the bottom quarter of the homeownership market. These market conditions suggest that a significant segment of Boston's middle class finds Boston's homeownership market very unaffordable.

TABLE 12: **Boston's Middle Class Relative to the Region**

Middle Class Characteristic	Boston	Greater Boston
Share of Households In Middle Class	34%	39%
Homeownership Rate	43%	69%
Share of Middle Class With Incomes Under $75,000	44%	40%
Share of Middle Class Aged 25-44	50%	39%

Source: 2012 American Community Survey Five-Year Estimates

TABLE 13: **Share of Rental & Ownership Market Affordable to Middle-Class Households, 2013**

Income	$50K	$60K	$70K	$80K	$90K	$100K	$125K
Share of Ownership Market that is Affordable using Conventional Financing	5%	8%	14%	23%	33%	41%	60%
Share of Rental Listings that are Affordable Spending 35% of Income on Rent	9%	26%	41%	51%	65%	74%	88%

Source: Dept. of Neighborhood Development compilation of 2013 Sales and Rental Listings, The Warren Group, MLS, & Rental Beast.

The rental market does offer some additional options, but they are shrinking as Boston's current rental market remains strong. While an annual income of $80,000 provides access to more than half of the rental listings in Boston (Table 13), the rental market is quickly becoming much less affordable. Median listing rents have increased at an annual rate of 13.2 percent since 2010, while incomes have only increased by 2.4 percent per year. If these trends continue, an increasing share of Boston's middle class will have significantly fewer rental options.

Middle Class Access to the Neighborhoods

The average middle-class homebuyer earning $80,000 per year is largely priced out of seven of Boston's 15 neighborhoods, unable to afford even the bottom quarter of the housing market in those neighborhoods. They have moderate access (between 25 and 50 percent of the market) in three neighborhoods, and good access (more than 50 percent of the market is affordable) in only five of our 15 neighborhoods. To see this data mapped, please refer to Pages 59 and 60.)

The options for the average middle-class renter are better – only three neighborhoods are out of reach - and there is good access to nine other neighborhoods.

Boston's Middle Class: Key Issues

If Boston is to continue to have a robust middle class in the years ahead, there are a number of challenges that need to be addressed. We can no longer assume that the middle class will be served as well by the housing market as it has been in the past. To that end, the City has identified the following four key issues:

Accommodating Growth

Demographic projections show Boston's workforce growing by 26,600 households between 2010 and 2030 – a nearly 13 percent increase over the next 20 years. The share of the workforce that is middle income is projected to increase at the nearly the same rate, adding 10,500 households over the same period (Table 14).

In addition, Boston's senior population is growing. Between 2010 and 2030, Boston will gain 22,400 senior households. While this plan estimates the construction of 5,000 new units of senior housing, the majority of senior households will be housed in the existing housing stock. This growth of seniors living in existing housing means that fewer units will become available to the workforce, requiring an additional 17,400 units to meet working-age household demand. The combined growth of both senior and workforce households will create a need for an additional 44,000 units of workforce housing by 2030 (Table 15, page 50).

This plan budgets for the creation of 6,500 new units of low-income workforce housing (see Chapter 1). Of the remaining 37,500 units of workforce housing needed, the City estimates that 20,000 should be produced at the middle-income level (Table 16, page 50).

TABLE 14: **Projected Growth of Middle Class Households in the Workforce: 2010-2030**

Demographic Element	2010	2030	Growth	% Change
Middle-income Workforce Households	80,631	91,071	10,440	12.9%
Workforce Households (all income levels)	210,683	237,340	26,657	12.7%
% of Workforce at Middle-income	38.30%	38.40%	0.10%	0.1%

Source: MAPC 2030 Household Projections for Boston, August 2014

Middle-class units will be produced in three ways:

- Production of market-rate units which, due to their location and current market-rate rent levels and home prices, are affordable to middle-income households;
- City-assisted units produced in mixed income developments using direct financial assistance, or through Inclusionary Development Program requirements; or
- Housing units released back into the rental housing market through dorm construction.

Producing these 20,000 units of middle-income housing will require an annual production rate of more than 800 units per year from 2014 to 2030 to create 15,000 new units. In addition, Boston will need a robust pace of new dorm construction to return 5,000 existing units currently occupied by students to the middle class (See Chapter 5, Student Housing).

As shown in Table 17 (page 50), the current rate at which middle-income affordable units are being produced is not sufficient to achieve this production goal. The low rate of middle-income housing production is likely the product of two factors. First, the current cost profile of new construction makes building in lower-priced markets less financially feasible. In addition, the strength and profitability of the higher-end markets has attracted most of the development capital available to build for that market.

As new luxury units currently under construction and in the pipeline come online, it is likely that the demand for luxury unit production may decrease. Additionally, the growing demand for more moderately-priced housing may offer new development opportunities. We believe that Boston's development community will respond and meet this demand—but only if they can produce housing that is financially feasible and provides a reasonable return.

Costs of Producing Housing for the Middle Class

With typical multi-family development costs often exceeding $400,000 per unit, developers are finding it difficult to build housing that is more moderately priced. Unless costs can be reduced, it will be difficult for the market to respond to the housing needs of Boston's middle class.

While some costs, such as the cost of building materials, may be harder for the City to influence, it is possible for the City to have a degree of impact over certain variables and costs associated with the development process. Decisions regarding density, design elements, parking, public amenities, and affordable housing requirements all have significant impacts on production costs. Labor costs can also be a factor in the financial feasibility of creating more moderately priced housing. Boston's administration is working closely with development professionals and the building trades to examine ways to reduce costs.

TABLE 15: Projected Workforce Housing Demand (All Income Levels): 2010-2030

Sources of Need	Units
Accommodating projected growth of workforce households 2010-2030	26,500
Workforce units needed to replace units lost to increased senior population	17,500
Total Production Needed	**44,000**

TABLE 16: Projected Workforce Housing Supply for Middle-Income Households: 2010-2030

Sources of Production	Units
Market-Produced Middle-Income Workforce Units to Accommodate Growth in Middle-Income Households	11,000
City Assisted Middle-Income Units Workforce Units - Financially Assisted /IDP Units	4,000
Middle-Income Units Released via Dorm Production	5,000
Total Production	**20,000**

TABLE 17: Middle-income (Market & Deed Restricted) Permitted by Year: 2011-2013

Year	City Assisted & Inclusionary	Market-rate Units in Lower-Priced Markets	Total
2011	109	375	484
2012	175	224	399
2013	294	397	691
Average Annual	**193**	**332**	**524**

Source: City of Boston building permits issued 2011-2013. DND market analysis of 2013 sales & listing rents

Access to Homeownership

Currently, Boston has a lower homeownership rate than the region, and the surging real estate market is making it difficult to catch up. With almost half of Boston's middle class largely priced out of the homeownership market, more and more middle-class Bostonians looking to buy their first home are facing the choice of either continuing to rent or looking outside Boston. If home prices in Boston continue to rise more rapidly than incomes, more and more of Boston's middle class may find it necessary to leave the city.

Demographic trends underscore the importance of this issue. Forecasts show that from 2010 to 2030, households of residents in their 30s and 40s will be the fastest-growing segment of Boston's workforce (Table 18). Additionally, households aged 35-44 have a significantly higher preference for homeownership than younger households (Table 19, Page 52). These demographics suggest that in the coming years, a more significant percentage of Boston's middle class will want to buy their first home.

Demographic projections also show that growth in family households will outpace the growth in non-family households. Approximately 54 percent of new housing demand (5,600 units) will come from family households. Smaller families (2-3 persons) will create a demand for approximately 3,100 new units, while larger families (4+ persons) will generate demand for about 2,500 units (Table 20, Page 52).

TABLE 18: **Projected Growth of Workforce-Aged Population by Age of Household: 2010-2030**

AGE	2010	2030	% CHANGE
20 – 24	88,129	80,486	-9%
25 – 29	74,691	73,565	-2%
30 – 34	53,393	67,303	26%
35 – 39	40,656	55,803	37%
40 – 44	36,685	53,243	45%
45 – 49	35,990	42,990	19%
50 – 54	34,170	34,488	1%
55 – 59	30,218	30,404	1%
60 – 64	25,833	29,301	13%

Source: MAPC 2030 Population Projections for Boston, August 2014

TABLE 19: Homeownership Rate by Age Group, 2012-2030

Age of Householder	Homeowners	Homeownership Rate
Under 25	621	3%
25-34	13,226	21%
35-44	16,218	37%

Source: 2012 American Community Survey Five-Year Estimates

TABLE 20: Projected Middle-Class Housing Demand by Family Status

Family Status	2010 Households	2030 Households	Growth 2010-2030	% Growth 2010-2030
Smaller (2-3 person) families	23,285	26,398	3,113	13%
Larger (4+ person) families	13,822	16,342	2,520	18%
Subtotal: Families	37,107	42,741	5,634	15%
Non Families	43,524	48,331	4,807	11%
Total	**80,631**	**91,071**	**10,440**	**13%**

Source: MAPC demographic projections for Boston, August 2014

TABLE 21: Racial Disparities in Boston's Homeownership Market, 2012

	White	Non-White
Share of Households In Middle Class	60%	40%
Share of City's Homeowners	65%	35%
Share of Home Purchase Loans 2012	80%	20%
Mortgage Loan Denial Rate, 2012	8%	19%

Sources: Mass Community Banking Council, Changing Patterns XX, 2014, 2012 American Community Survey Five-Year Estimate

Fair Access To Credit

While Boston's middle class is far more diverse than that of the Greater Boston region, there are significant disparities in the homeownership market that need attention. As shown in Table 21, while 40 percent of Boston's middle class is non-white, only 20 percent of home purchase mortgages went to non-white borrowers in 2012. Denial rates for non-white borrowers are more than double that for white borrowers. Unchecked, this could mean that by 2030, the disparity in homeownership rates between whites and non-whites could be even greater than it is today. This is a trend that will require thoughtful and deliberate action.

Boston's Middle Class: Goals

1. **Double the pace of middle-income workforce housing production, creating 20,000 units citywide by 2030**

   Reaching 20,000 new units of middle-income workforce housing will require increasing the pace of production to more than 800 units per year, for a total of 15,000 new units. Additionally, Boston's college and university partners must produce new dormitories in order to open up 5,000 units currently being utilized by students to the middle class.

   While the majority of unit demand is projected to be for rental housing, there will be an increased demand for homeownership units as well. Achieving this goal will require major efforts to increase private-sector housing development for the middle class in Boston. Approximately 4,000 middle-income assisted units will be created via the Inclusionary Development Policy or units subsidized in mixed-income developments.

2. **Expand and enhance homebuyer programs to help 5,000 middle class homebuyers purchase their first home**

   This expansion will include buyers receiving financial assistance through the Boston Home Center, as well as buyers purchasing an income-restricted unit developed in partnership with the City.

3. **Work with non-profit and lending partners to increase mortgage lending, and ensure equal access to home mortgages**

   This will require that the City better understand current lending practices, rates and disparities in the mortgage market. The City will work with lending institutions and non-profit advocacy groups to develop solutions and programs and establish ongoing monitoring of progress.

Boston's Middle Class: Actions

1. Encourage private developers to create housing that is affordable to the middle class

In order to stimulate the production of middle-income housing, the City will work to provide a suite of incentives to the development community. The proposed incentives include efforts to:

Allow significant density in areas affordable to the middle-class, providing for more efficient developments. Locations targeted for higher density will include areas where market rents and housing prices are affordable to the middle class; where there is vacant and underutilized land available; where there are mixed-use development opportunities in commercial districts; and where there is good access to public transit. These growth districts will be identified in the Spring of 2015.

Provide property tax incentives that will encourage the construction of housing affordable to the middle class. These tax incentives will be targeted to developments located in areas of the city that are more affordable and can accommodate growth. In order to help reduce development costs, these tax benefits will eliminate property taxes during construction and reduce property taxes during the first three years of property stabilization. Following additional consultation with the development community and the State's Executive Office of Housing and Economic Development (EOHED), the City anticipates finalizing the structure of these incentives and working with the EOHED to determine whether they can be accommodated under existing state tax incentive programs. A determination that the proposed incentives could be accommodated under existing programs would allow developers to access these incentives in early 2015.

Allow reasonable modifications to the Inclusionary Development Policy (IDP) in designated, more moderately priced areas. These modifications would allow a developer to use an IDP rent level closer to the market rate. This program change will assist with financial feasibility. After consultation with the development and housing advocacy communities, the City will modify the IDP Executive Order.

Work with the building and construction trades to lower the cost of construction. The Administration has worked with the building and construction trades on an innovative plan to apply residential construction rates to affordable and workforce housing projects. The initiative will employ a clearly-defined construction scope, will be limited to certain types of residential buildings (predominantly wood frame), and will target designated areas of the city that are able to support growth, but are still affordable to the middle class.

2. Create mixed-income housing using public resources and on-site Inclusionary Policy

The City is currently undertaking an inventory of all publicly-owned land, and will look to assemble parcels for redevelopment with a focus on potential mixed-income housing developments. Both City and State agencies with major land holdings in Boston are supportive of this initiative and are committed to identifying opportunities to create mixed-income communities. The City expects that DND, BHA and BRA inventories will be completed in 2014, with other City and State agencies to follow in early 2015.

In addition, the City will explore policies by which direct public financial assistance could be used to encourage mixed income developments throughout the City. Any efforts to create affordable and mixed income housing using public funds or publicly-owned land will also require long-term affordability restrictions.

The City will continue to require that a substantial percentage of the Inclusionary Development Program (IDP) units be created on-site. In those cases where developers are allowed to meet their IDP obligation by creating the required affordable units off-site, these units should be created in close proximity to the market-rate development.

3. Make City-owned infill lots available for mixed-income homeownership development

The City owns nearly 300 vacant lots that could be quickly developed into mixed-income housing by making these parcels available to nonprofit and small builders at no or low cost in exchange for affordability. The City will facilitate development on these parcels by establishing a set of pre-approved designs that can receive fast track building code review and bypass extensive design review.

4. Streamline permitting processes to help small builders develop affordable homes on privately-owned vacant parcels

Small housing development projects undertaken by smaller builders are a critical part of the City's efforts to promote middle-class housing production in lower-priced neighborhoods. From 2011 until 2014, 73 percent of all private new housing production in Dorchester was in small projects of 1-9 units. In East Boston, 31 percent of all private new housing was in small projects; in Hyde Park, the share was 100 percent. Yet the City's permitting systems do not make it easy for these smaller builders to build. Permitting a small project generally requires an application, followed by several rounds of approvals or rejections from the Zoning Board of Appeals, the community input process, and BRA Design Review.

To avoid costly changes, additional requirements, or long delays, builders will often design homes that conform narrowly to the requirements of zoning, even if the resulting design is not as appropriate for the site as one requiring zoning relief. A system where adherence to narrow zoning requirements trumps good design is not a system that is going to yield middle-class housing production of the quality and scale that this plan envisions.

In order to address these issues, the City intends to engage the small builder community to help develop practical reforms to the City's small project permitting system that reward good design, are efficiently administered, and have predictable timelines. The City has already begun implementing important permitting reforms and will engage the small builder community to provide feedback and direction in early 2015.

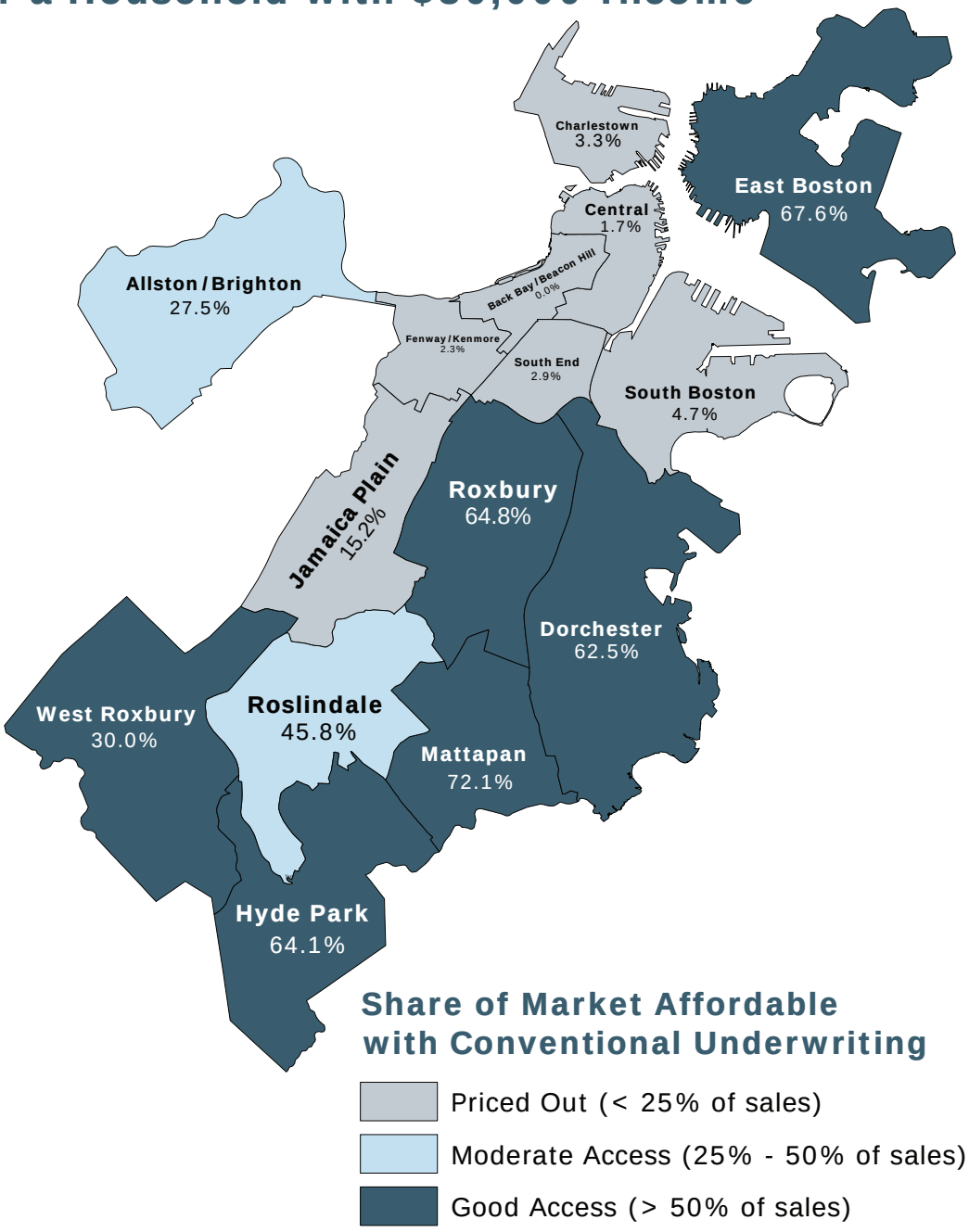
5. Enhance homebuyer assistance programs and advocate for equity in the homeownership market

The City needs to increase homeownership in Boston, particularly among Bostonians of moderate means. To that end, the Department of Neighborhood Development will work closely with the Massachusetts Community Banking Council, MassHousing, Massachusetts Housing Partnership, Massachusetts Affordable Housing Alliance, the Homeownership Action Network, and our private lending partners to better understand lending activity in Boston. This information will assist DND in creating new homebuyer tools and initiatives to increase the number of homeowners throughout Boston.

In order to better mitigate the root causes of the current racial disparities in homeownership rates and mortgage lending in Boston, the Office of Fair Housing and Equity will establish a Fair Lending Initiative. This effort will work to educate, test, and bring enforcement when necessary.

MAP 1: **The Middle Class Homeowner**

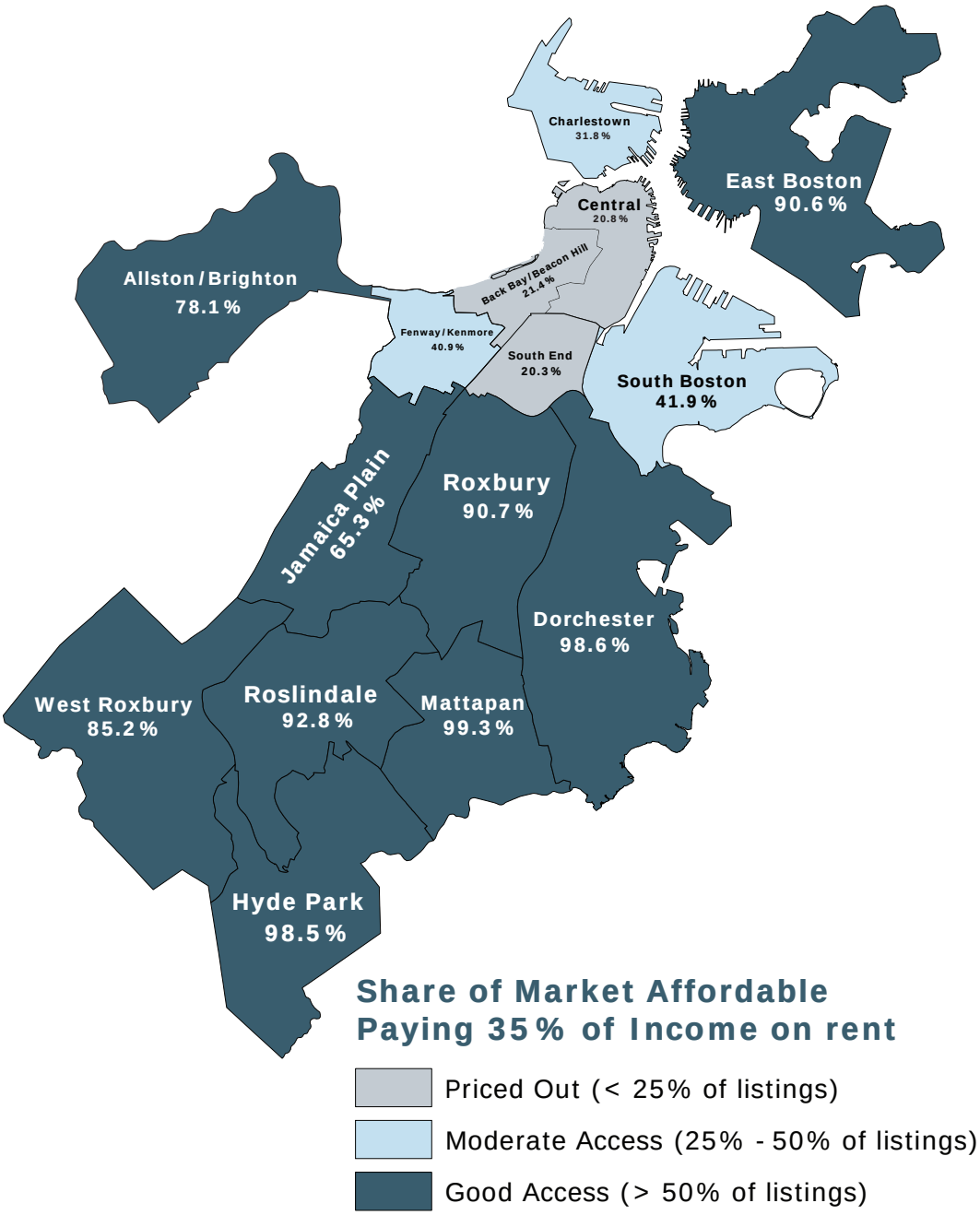
Access to the Homeownership Market for a Household with $80,000 Income



Source: Warren Group Sales Data

MAP 2: **The Middle Class Renter**

Access to the Rental Market for a Household with $80,000 Income



Source: Warren Group Sales Data